

Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 /026 R

DRAFTED BY NEA/EGY:GGBROWN/EB/OFD:CRCVANAUGH:P

APPROVED BY NEA:HHSANDERS

AID/GC:ARRICHSTEIN (DRAFT)

S/S-O:P.JOHNSON

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 106097

EXDIS

E.O. 11652: GDS

TAGS: EAID, EG

SUBJECT: EGYPTIAN REQUEST RE TITLE I PL-480 WHEAT

REF: CAIRO 4229

1. DEPARTMENT CONCURS WITH YOUR RESPONSE TO FOREIGN MINISTER FAHMY'S REQUEST THAT THE GOE BE PERMITTED TO PAY FOR TITLE I PL-480 WHEAT IN LOCAL CURRENCY. THERE IS NO PRESIDENTIAL AUTHORITY THAT WOULD ALLOW CHANGING THE TERMS OF THE AGREEMENT TO A LOCAL CURRENCY AGREEMENT. YOU MAY WISH TO DRAW ON SOME OF THE FOLLOWING BACKGROUND INFORMATION IN RESPONDING TO FAHMY.

2. PUBLIC LAW 480, THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT, WAS SUBSTANTIALLY AMENDED IN 1966. THE AMENDMENTS BECAME EFFECTIVE JANUARY 1, 1967. ONE OF THEM, SECTION 103(B), REQUIRED THAT STEPS BE TAKEN TO INSURE A PROGRESSIVE TRANSITION FROM SALES FOR FOREIGN CURRENCIES TO SALES FOR DOLLARS AND THAT THIS TRANSITION BE COMPLETED BY DECEMBER 31, 1971. TO THE EXTENT THAT TRANSITION DIRECTLY FROM LOCAL CURRENCY SALES TO DOLLAR SALES UNDER THE CREDIT TERMS APPLICABLE TO THESE SALES HAS NOT BEEN POSSIBLE, SECTION 103(B) PROVIDES FOR CREDIT SALES PAYABLE IN LOCAL CURRENCY.

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CURRENCIES CONVERTIBLE TO DOLLARS. CONSISTENT WITH THE

LEGISLATIVE HISTORY OF SECTION 103, WHERE CLCC (CONVERTIBLE LOCAL CURRENCY CREDITS) SALES ARE MADE, PAYMENT IS REQUIRED, BY THE TERMS OF THE PL-480 AGREEMENTS, TO BE IN DOLLARS.

3. ALTHOUGH LOCAL CURRENCY SALES AGREEMENTS ARE NO LONGER AUTHORIZED, FOREIGN CURRENCY NEEDED BY THE UNITED STATES MAY NEVERTHELESS BE OBTAINED IN BOTH DOLLAR CREDIT AND CLCC AGREEMENTS. SECTION 103(B) PROVIDES THAT THE PRESIDENT SHALL DETERMINE THE AMOUNT OF FOREIGN CURRENCIES NEEDED BY THE U.S. FOR VARIOUS PURPOSES, INCLUDING PAYMENT OF U.S. OBLIGATIONS, LOANS TO PRIVATE BUSINESS FIRMS, AND VOLUNTARY ACTIVITIES RELATED TO POPULATION GROWTH PROBLEMS (SUBSECTIONS (A), (B), (E), AND (H) OF SECTION 104). THE CREDIT AGREEMENT WOULD THEN PROVIDE FOR PAYMENT OF SUCH AMOUNTS UPON DELIVERY OF THE AGRICULTURAL COMMODITIES. SUCH PAYMENTS MAY BE CONSIDERED AS ADVANCE PAYMENTS OF THE EARLIEST INSTALLMENTS. THIS PROVISION WOULD NOT APPLY TO THOSE COUNTRIES WHERE THE SUPPLY OF U.S.-OWNED CURRENCIES IS IN EXCESS OF ITS REQUIREMENTS.

4. FOR EXAMPLE, FY 1975 20-YEAR DOLLAR CREDIT AGREEMENTS WITH ISRAEL AND JORDAN REQUIRE A FIVE PERCENT CURRENCY USE PAYMENT (AS WELL AS A FIVE PERCENT INITIAL PAYMENT). HOWEVER, THE FISCAL YEAR 1975 AGREEMENT WITH EGYPT HAS NO SUCH REQUIREMENT AS U.S. HOLDINGS OF EGYPTIAN CURRENCIES ARE IN EXCESS OF FORESEEABLE U.S. REQUIREMENTS.

5. IN THE CASE OF CONVERTIBLE LOCAL CURRENCY AGREEMENTS, THE FY 1975 AGREEMENT WITH HAITI CONTAINS A FIVE PERCENT INITIAL PAYMENT AS WELL AS A FIVE PERCENT CURRENCY USE PAYMENT. THE INDIA AGREEMENT HAS A FIVE PERCENT INITIAL PAYMENT BUT NO CURRENCY USE PAYMENT.

6. BASIC DIFFERENCE BETWEEN DOLLAR CREDIT AND CLCC IS LENGTH OF LOAN AND GRACE PERIOD. DOLLAR CREDIT CAN BE EXTENDED FOR PERIODS OF 5 TO 20 YEARS WITH 2-YEAR GRACE. CLCC, SIMILAR TO AID DEVELOPMENT LOANS, CAN BE EXTENDED FOR PERIOD OF 21 TO 40 YEARS WITH UP TO 10-YEAR GRACE PERIOD. THESE WERE DESIGNED FOR TRANSITION PERIOD AS NOTED PARA 2 ABOVE.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WHEAT, PL 480 TITLE 1, DEBT REPAYMENTS, CURRENCIES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: woolflhd
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE106097
Document Source: CORE
Document Unique ID: 00
Drafter: GGBROWN/EB/OFD:CRCVANAUGH:P
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750159-0710
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750573/aaaacomh.tel
Line Count: 109
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 75 CAIRO 4229
Review Action: RELEASED, APPROVED
Review Authority: woolflhd
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by CunninFX>; APPROVED <23 DEC 2003 by woolflhd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EGYPTIAN REQUEST RE TITLE I PL-480 WHEAT
TAGS: EAID, EG
To: CAIRO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006